

Hungarian retail sales still in decline

The volume of retail sales fell both on a monthly and yearly basis, underscoring the downtrend since December 2022. Going forward, we expect continued weakness in the second quarter of this year



Shoppers in Budapest

-12.6%

Volume of retail sales (YoY, wda)

ING estimate: -11.8% / Previous: -13.2%

Worse than expected

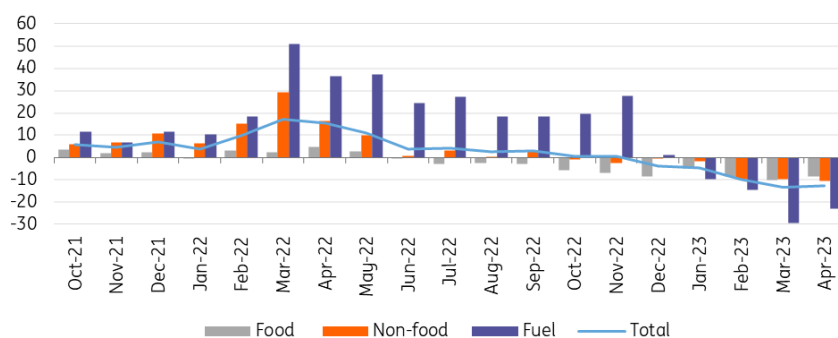
On a monthly basis, the volume of retail sales has been falling steadily since the end of last year, with March being an exception. However, the latest data for April suggests that the month-on-month (MoM) rise back in March was only a temporary and short-lived surprise. In this respect, we are back in a continuous downtrend with no marked recovery in sight, as sales volumes fell by 0.9% MoM in April, after adjusting for seasonal and calendar effects.

If we look at the year-on-year (YoY) reading, the final figure was worse than even ING's most pessimistic estimate, as retail sales declined by 12.6% YoY, after adjusting for calendar effects. Although this represents a slight improvement compared to the 13.2% year-on-year slump in

March, this was actually caused by a lower base effect dating back to last April.

Out of the three main components of retail sales, food retailing showed the smallest contraction on a yearly basis, registering only an 8.6% decline compared to April 2022. On the other hand, the minimal 0.1% MoM increase in food sales is not exactly encouraging, as this is only the second time in the last 12 months when food sales increased on a monthly basis. Despite food inflation moderating over the last four months, the annualised index is still elevated at 37.9%, which explains why households are still cutting back on food expenses. With real wages having fallen steadily for seven months, we do not expect a marked recovery in food retailing in the second quarter, despite reduced pressure in food prices.

Breakdown of retail sales (% YoY, wda)



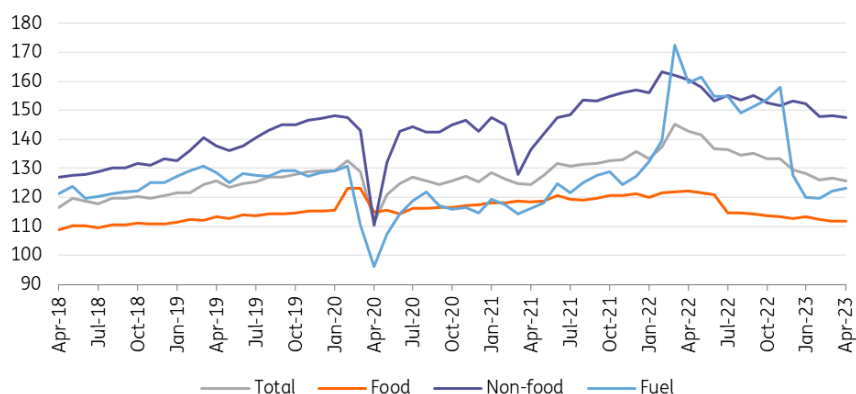
Source: HCSO, ING

Non-food retailing decreased both on a yearly and monthly basis, with the latter contracting by 0.6% MoM. This hardly comes as a surprise as households are prioritising buying food amid sky-high inflation. Judging by the sub-components, we see a fairly heterogenous performance as pharmaceutical and cosmetics sales rose, with sales of other sub-components markedly declining. Among these, clothing along with furniture and electrical goods stand out, as these stores have been in a long-term downward trend since last year.

We believe that the disappointing monthly dynamics of these stores underscore our view that households are increasingly cutting back on spending on items that are considered more luxurious. Moreover, the 4.5% MoM decline in the sales of manufactured goods highlights the lack of domestic demand that Hungarian industry has been suffering from in recent months.

For a complete picture, without the 0.9% month-on-month increase in fuel retailing, the overall performance of the retail sector would have been much worse. In this respect, the increase in fuel sales can be attributed to lower fuel prices. However, due to the fuel price cap which artificially lowered fuel prices a year ago (and up until December 2022) the yearly-based index shows a staggering 22.9% decline.

Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

The latest retail sales data suggests that the second quarter has started on a rather weak note, and we believe that a significant improvement is unlikely in the coming months. April was the seventh month in a row in which household purchasing power has fallen, a trend that we believe will continue into the fourth quarter of this year. This is the main reason for our expectation of continued weakness in the second quarter, although we do expect fuel retailing to pick up in May as global energy prices continue to fall. However, this is only a silver lining and will not change the overall picture, especially the annual dynamics.

We do not expect the government's mandatory discounts on food products, which began on 1 June, to have a significant impact either on the course of inflation or on the declining trend in food retailing, although they will provide some stimulus to food sales. However, we believe that the reluctance to spend in the non-food retail sector will continue due to the loss of household purchasing power, so we expect consumption to fall in substance in the second quarter.

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